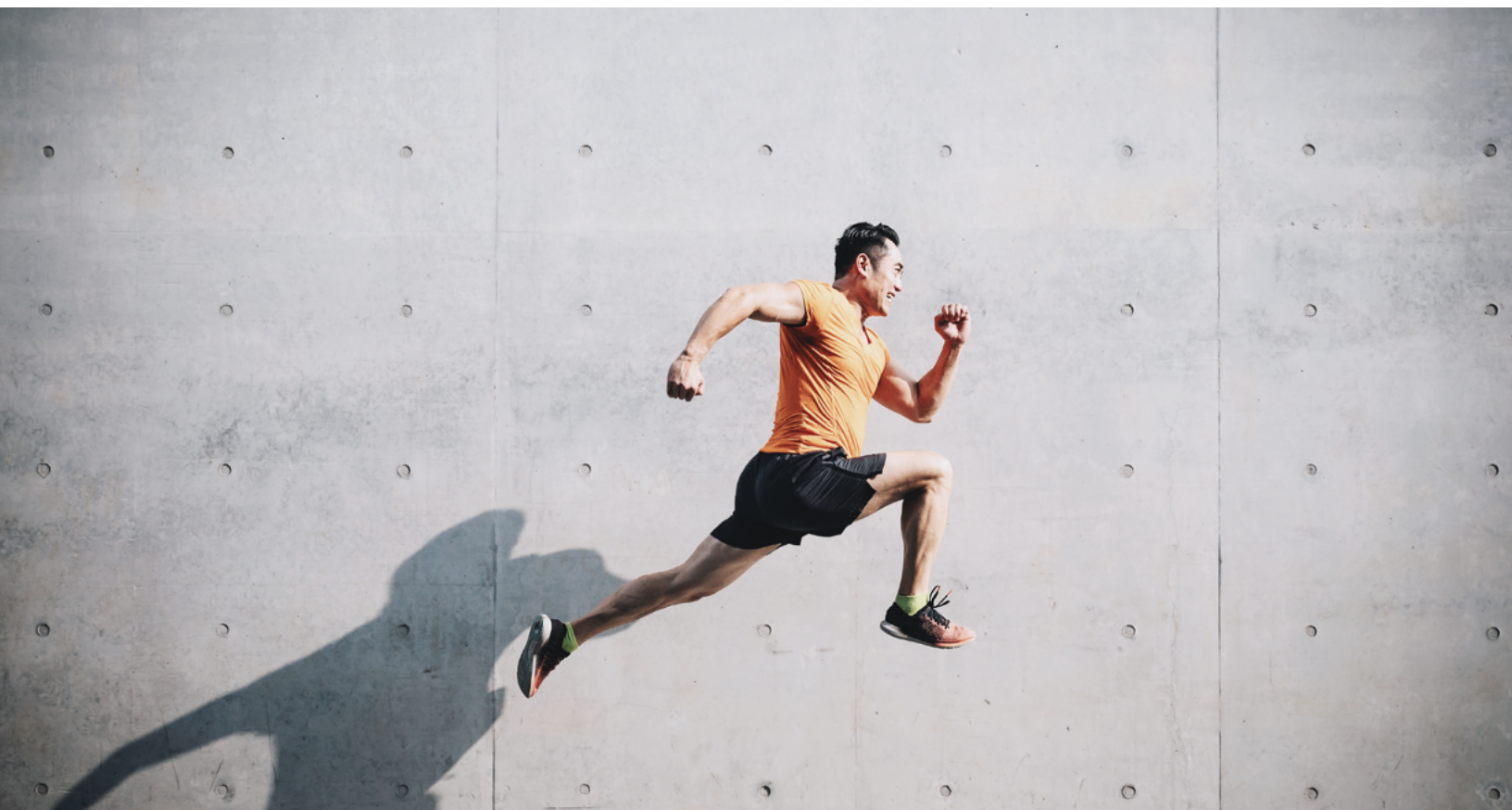


# Fast forward China: How COVID-19 is accelerating 5 key trends shaping the Chinese economy

*Nick Leung, Joe Ngai, Jeongmin Seong, Jonathan Woetzel*



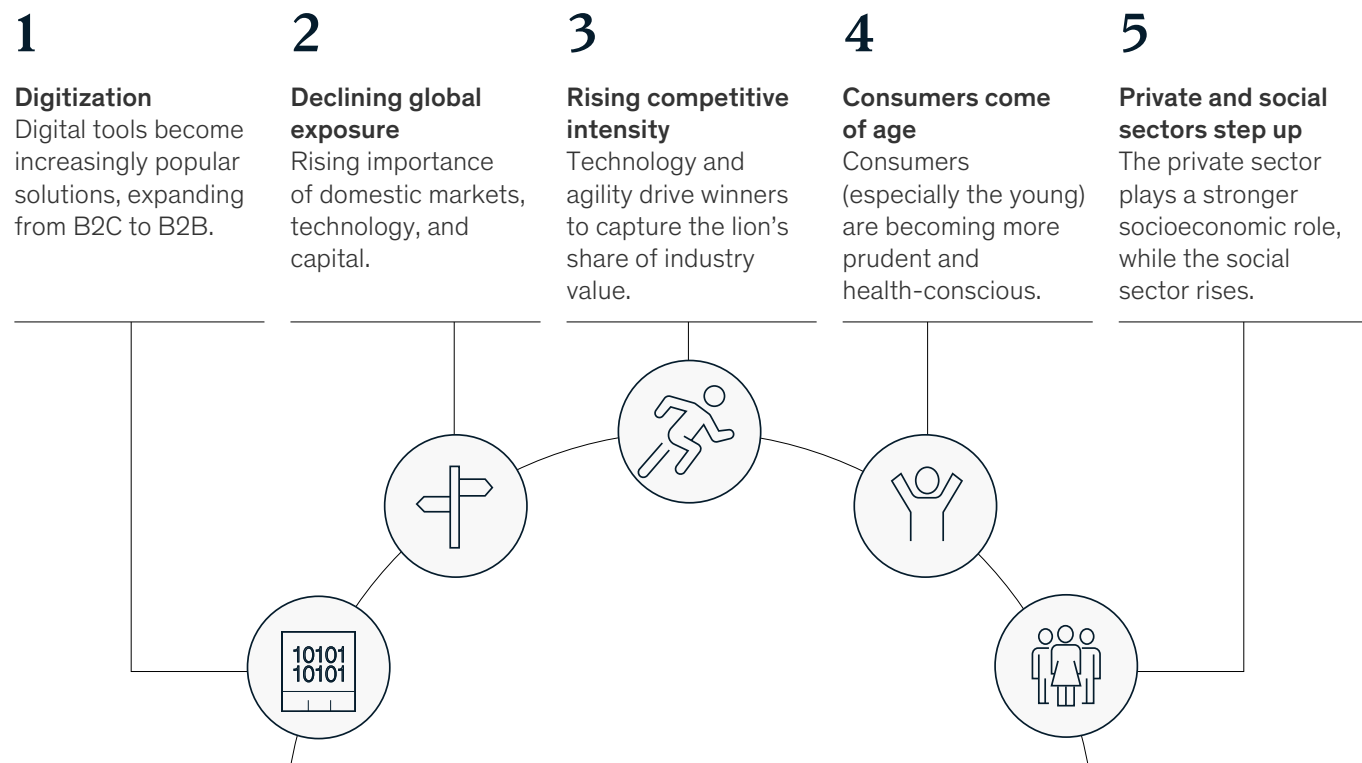
Over the last few months, COVID-19 has spread across the world, uniting humanity in a shared experience that has highlighted the vulnerability of our societies. As the first country to grapple with the crisis, China has been on the frontlines both of post-COVID-19 economic recovery, and of the societal changes the pandemic has precipitated. Efforts to stabilize the domestic economy are already well underway, and though China's first-quarter gross domestic product declined 6.8 percent over the previous year, according to government statistics, our simulations suggest that economic activity may have bottomed out in the first quarter.<sup>1</sup>

As that recovery takes shape, several important shifts in the make-up of China's economic landscape have already become apparent. COVID-19 has accelerated pre-existing trends, ushering in the arrival of a future we were likely already on track to realize. In this report, we discuss five trends shaping the Chinese economy that have been accelerated, or "fast forwarded," as a result of the onset of the COVID-19 crisis (Exhibit 1).

Exhibit 1

## Five accelerating trends in China since COVID-19

### Observations from China



Source: McKinsey analysis

<sup>1</sup> Sven Smit, Martin Hirt, Kevin Buehler, Susan Lund, Ezra Greenberg, and Arvind Govindarajan, *Safeguarding our lives and our livelihoods: The imperative of our time*, March 2020, <https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/safeguarding-our-lives-and-our-livelihoods-the-imperative-of-our-time>

## **Fast forward trend 1: Digitization**

COVID-19 has not only accelerated digitization in business-to-consumer (B2C) applications and channels, but also the traditionally less digitized part of the economy, such as areas requiring physical interactions, and business-to-business (B2B) processes.

Before COVID-19, China was already a digital leader in consumer-facing areas—accounting for 45 percent of global e-commerce transactions while mobile payments penetration was three times higher than that of the US. Consumers and businesses in China have accelerated their use of digital technologies as a result of COVID-19. Based on our mobile surveys of Chinese consumers, about 55 percent are likely to continue buying more groceries online after the peak of the crisis. Nike's first-quarter digital sales in China increased 30 percent on year after the company launched home workouts via its mobile app, while property platform Beike said agent-facilitated property viewings on its virtual reality showroom in February increased by almost 35 times compared with the previous month.

Working practices also changed significantly: Enterprise communication platform DingTalk more than doubled its monthly active users in a single quarter to 177 million. In healthcare, digital interactions accelerated—the rapid growth of online consultations, partly thanks to a regulatory shift in reimbursement policy, as well as broader virtual interactions between pharmaceutical sales agents and physicians. These changes occurred ahead of wide deployment of 5G technology, which will likely catalyze the use of digital tools.

## **Fast forward trend 2: Declining global exposure**

A mix of geopolitical and economic forces was already driving a change in the relationship between China and the world, and COVID-19 appears to be accelerating this trend.

Before COVID-19, China had been reducing its relative exposure to the world as the majority of economic growth was generated by domestic consumption, supply chains matured and localized, and its innovation capabilities were enhanced. The US-China trade dispute raised risks and uncertainties, and about 30 to 50 percent of companies surveyed by various institutions in 2019 indicated that they were considering adjusting their supply chain strategies by seeking alternative sources or relocating production to other geographies. COVID-19 has intensified the debate, with several governments calling for companies in critical sectors to relocate their operations back to their home countries and announcing financial support packages to facilitate this. Twenty percent of companies surveyed by AmCham China believe COVID-19 may accelerate “decoupling”. A paper published in February by the European Union Chamber of Commerce highlighted how diversification is now at the top of the agenda for many European companies in China. Global trade and investment has slowed sharply, and the movement of people has become highly restricted.

Despite these trends, the full picture is more nuanced. Given the size and the growth potential of the Chinese market, investing in a supply chain and innovation footprint to serve China will continue to remain important. And China for its part will continue to require global technology inputs in order to maintain productivity growth. The relationship between China and the world will be a function of the decisions that all parties make over the course of the next several months and years.

### **Fast forward trend 3: Rising competitive intensity**

China's leading companies retain an outside share of profits and return on investment, but cut-throat competition threatens their position. COVID-19 will raise competitive intensity, creating even bigger rewards, and risks, for companies in China.

In China, the top decile of companies capture about 90 percent of total economic profit, while the ratio is about 70 percent for the rest of the world, according to our analysis of the world's top 5,000 companies. This leading cohort is comprised of companies that have already digitized and possess highly agile operations, strengths that served them well during the epidemic. For example, Alibaba's Freshippo supermarkets surmounted supply constraints and met soaring online orders for fruit. Foxconn's agility allowed it to switch factory operations to mask production, protecting employees, and enabling resumption of production earlier than competitors. Popular short-video platform TikTok announced it was hiring 10,000 new employees when the virus hit a peak. At the other end of the spectrum, weaker companies, particularly SMEs that are not sufficiently agile or digital-savvy, are vulnerable to cashflow issues, unemployment, and business failure.

### **Fast forward trend 4: Consumers come of age**

China's affluent younger generation had never experienced a domestic economic downturn prior to COVID-19. The virus has forced them to think harder about spending, saving, and trade-offs in purchasing behavior.

Attitudes to spending among consumers in their 20s and 30s, traditionally the engine of China's consumption growth, have changed markedly in the wake of COVID-19. One survey showed 42 percent of young consumers intend to save more as a result of the virus. Consumer lending has also declined, while four out of five Chinese consumers intend to purchase more insurance products post-crisis. Savings have also rocketed—the country's household deposit balance increased by 8 percent over the first quarter to reach 87.8 trillion RMB. Meanwhile, 41 percent of consumers said they planned to increase sources of income through wealth management, investments, and mutual funds.

The virus has also forced purchasing trade-offs, with consumers seeking better quality and healthier options: More than 70 percent of respondents in our COVID-19 consumer survey will continue to spend more time and money purchasing safe and eco-friendly products, while three-quarters want to eat more healthily after the crisis.

## **Fast forward trend 5: Private and social sectors step up**

During the 2003 SARS outbreak, the government and state-owned enterprises (SOEs) were the primary actors during the economic recovery. Now, the private sector and leading technology companies are playing a more significant role, making large socioeconomic contributions amid the emergence of powerful social institutions that have donated millions to recovery efforts. Policy debates also indicate COVID-19 might be accelerating long-awaited structural reforms to land, labor, and capital markets.

In the wake of the 2003 SARS outbreak, SOEs were the major driver of China's economy, accounting for about 55 percent of China's assets, and 45 percent of profits. Today, the private sector contributes close to two-thirds of China's economic growth, and 90 percent of new jobs, illustrating a significant shift in the balance of economic power. In the wake of COVID-19, joint efforts between government and large private companies have played a leading role. For example, Alipay and WeChat supported the Shanghai government's "Suishenma" health QR code launch to help contain the spread of the virus.

These actions illustrate the growth of the private sector, its ability to participate in activities of national importance, and the potential of public-private partnerships. Meanwhile, social institutions including the Bill & Melinda Gates Foundation and the Vanke Foundation have donated millions of dollars to aid recovery efforts. We expect social institutions like these to play a vital role in shaping Chinese society going forward.

In the rest of this report, we explore in more depth how five key trends that have been shaping the Chinese economy have been accelerated by the onset of the COVID-19 crisis.

# Fast forward trend 1: Digitization

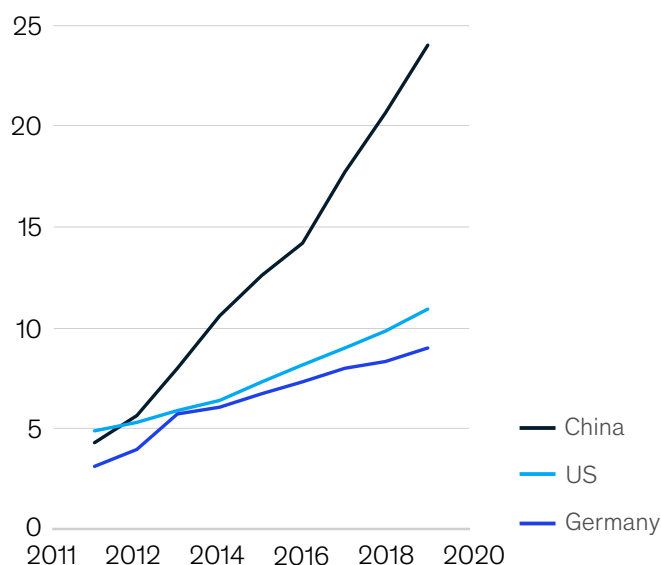
Even before the onset of COVID-19, China was a global frontrunner in terms of the digital economy.<sup>2</sup> Now, digitization is not only accelerating in the typical business-to-consumer (B2C) applications and channels, but is also gaining traction in the traditionally less digitized part of the economy, such as areas requiring heavy physical interactions and business-to-business (B2B) processes. (Exhibit 2)

Exhibit 2

## Digitization

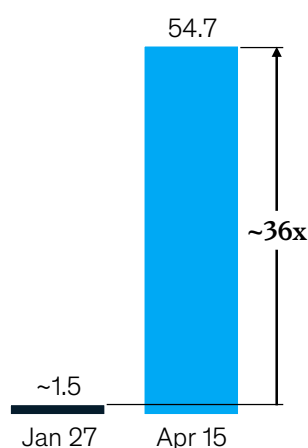
### China has long been a global leader in the digital economy

E-commerce as share of total retail value, %

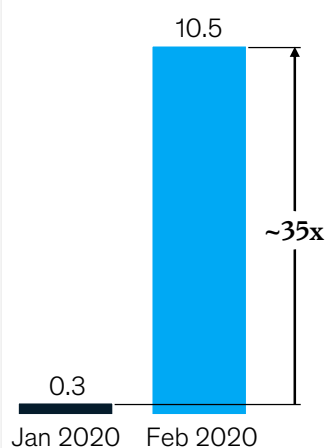


### Consumers and businesses have accelerated their use of digital since COVID-19

**Online medical consultations,**  
WeDoctor number of registered doctors on their free consultation platform (in K)



**Virtual property “showrooms”,**  
Beike VR virtual property showing sessions between agents and prospective buyers (in Mn)



Source: iResearch and MOFCOM for China; eMarketer for other countries; literature search; McKinsey analysis

<sup>2</sup> Kevin Wei Wang, Jonathan Woetzel, Jeongmin Seong, James Manyika, Michael Chui, and Wendy Wong, *Digital China: Powering the economy to global competitiveness*, McKinsey, December, 2017.

China's digital ecosystem is arguably the most sophisticated in the world, with more than 850 million internet users, and a quarter of the world's startups valued in excess of a billion dollars. Mobile payment penetration is triple that of the United States, while e-commerce accounted for 24 percent of total retail sales in 2019, compared with 9 percent in Germany, and 11 percent in the US. Indeed, China is the world's largest e-commerce market, accounting for about 45 percent of global retail e-commerce transaction value in 2018.

Prior to COVID-19, the continuous pursuit of innovation by large technology companies and venture-capital investment in key digital technologies, drove the rapid evolution of China's digital landscape. The virus outbreak, meanwhile, has driven the emergence of new digital solutions necessary for companies and consumers forced to observe physical distancing, driving rapid growth of a "stay-at-home economy", and transforming consumer and employee behavior in ways that are likely to endure.

**COVID-19 has accelerated digital developments in three key areas:**

- **B2C interactions, particularly via online channels.** Based on a mobile survey of Chinese consumers conducted before, during, and after the peak of the epidemic in China, about 55 percent of consumers are likely to continue buying more groceries online after the peak of the crisis.<sup>3</sup> According to our COVID-19 mobile survey, 74 percent of Chinese citizens increased their online grocery visit frequency during the epidemic, and 15 percent report that they will increase visits after its peak has passed. B2C companies with established digital solutions were able to take advantage of the shift to digital channels, and outperformed peers. For example, Nike hosted workouts for housebound consumers on its mobile apps, stoking demand and driving an 80-percent increase in engagement, as well as a more-than-30-percent increase in first-quarter digital sales in China.<sup>4</sup> Meanwhile, Lululemon deployed a WeChat marketing strategy that increased customer acquisition during the epidemic, leading company management to adopt similar digital engagement models in other regions as a result.<sup>5</sup> Automakers have also taken to launching live stream videos on platforms like TikTok, Alibaba's Tmall, and their own mobile apps, using the digital channel to introduce models and features to consumers, field questions, and sell vehicles, which in some cases are then driven directly to consumers' homes.<sup>6</sup> Since the epidemic began, Taobao has registered 30,000 live-streaming merchant accounts every day, leading to a sevenfold growth in accounts.<sup>7</sup> (Exhibit 1)

---

<sup>3</sup> Julien Boudet, Jonathan Gordon, Brian Gregg, Jesko Perrey, and Kelsey Robinson, *How marketing leaders can both manage the coronavirus crisis and plan for the future*, McKinsey, April, 2020.

<sup>4</sup> Jeremy Bowman, *3 Reasons Why Nike Can Overcome the Coronavirus Crisis*, Nasdaq, March 29, 2020, <https://www.nasdaq.com/articles/3-reasons-why-nike-can-overcome-the-coronavirus-crisis-2020-03-29>.

<sup>5</sup> Samantha McDonald, *Why Lululemon Is Winning Despite the Coronavirus Crisis*, FN, March 27, 2020, <https://footwearnews.com/2020/business/earnings/lululemon-coronavirus-sales-earnings-q4-2019-1202955393/>.

<sup>6</sup> Hu Yumo, *Automakers go online as COVID-19 hurts sales*, SHINE, February 28, 2020, <https://www.shine.cn/biz/auto/2002283070/>.

<sup>7</sup> Alibaba: *In February, there were more than 30,000 people opening new stores in Taobao every day*, Sina, February 14, 2020, <http://finance.sina.com.cn/stock/relnews/us/2020-02-14/doc-iimxxstf1374236.shtml>; *Monthly report of Taobao livestreaming*, ChinaZ.com, March 4, 2020, <https://www.chinaz.com/2020/0304/1114695.shtml>.

- **B2C sectors that traditionally rely on physical interactions.** During the lockdown period, companies deployed an array of digital tools to stay connected with customers, even in sectors that traditionally rely on physical interactions. For instance, a leading real estate company launched “virtual showrooms” and online consultations through a dedicated WeChat mini program. In tandem, a dedicated digital salesforce helped deepen relationships with customers, forging connections that will likely outlast the epidemic. Beike, a multi-service property platform, has seen the number of agent-facilitated property viewing sessions on its virtual reality showroom increase by almost 35 times month-on-month in February.<sup>8</sup> Traditional face-to-face medical consultations were also digitized. The Ping An Good Doctor medical consultation platform attracted 1.11 billion visits during the lockdown period.<sup>9</sup> In the process, its registered user base rose tenfold, and the number of daily medical consultations for new app users was nine times higher than before Chinese New Year.<sup>10</sup> Tencent-backed WeDoctor rolled out a free online medical consultation program at the start of the outbreak, and the number of doctors supporting the platform has grown from roughly 1,500 in late January to more than 54,000 in April.<sup>11</sup>
- **Business processes.** Traditionally, business-to-business (B2B) operations and engagement models demand face-to-face interactions. During COVID-19, several digital processes were introduced that fundamentally changed industry dynamics. The increased use of remote working applications is stark—enterprise communication platform DingTalk’s monthly active users rose from about 65 million at the end of 2019, to roughly 177 million by March 2020—a more than 1.7-times increase.<sup>12</sup> Elsewhere, Chinese insurers allowed virtual client meetings to count towards life insurance agents’ key performance indicators, whereas previously only face-to-face meetings were considered. Pharmaceutical sales agents were able to meet with physicians online instead of in-person, opening the door to further such interactions in future. Moreover, telecom companies in China have maintained their 2020 5G development targets despite the outbreak, suggesting that digital tools for remote work and interactions will likely continue to proliferate rapidly, catalysed by next-generation communications infrastructure.<sup>13</sup>

<sup>8</sup> SUN Mengmeng, SUNAC, *Evergrande projects going strong in online sales, Beike VR property sales reshapes new property sales value chain*, Xinhua, March 13, 2020, [http://www.xinhuanet.com/house/2020-03-13/c\\_1125706856.htm](http://www.xinhuanet.com/house/2020-03-13/c_1125706856.htm).

<sup>9</sup> Ping An Good Doctor, *Ping An Good Doctor Issues 2019 Sustainable Development Report Platform Visits Hit 1.11 Billion During Epidemic*, PR Newswire, February 17, 2020, <https://www.prnewswire.com/news-releases/ping-an-good-doctor-issues-2019-sustainable-development-report-platform-visits-hit-1-11-billion-during-epidemic-301005828.html>.

<sup>10</sup> Ping An Good Doctor, *Ping An Good Doctor 2019 Performance*, Ping An Good Doctor official website, February 11, 2020, [http://www.pagd.net/media/pdf/cn/2019an/2019\\_AN\\_CN.PDF](http://www.pagd.net/media/pdf/cn/2019an/2019_AN_CN.PDF).

<sup>11</sup> ZHANG Lijuan, *Internet hospital helps epidemic control, WeDoctor opens up medical emergency relief “from the skies”*, Science and Technology Daily, February 20, 2020, [http://stdaily.com/rgzn/yiliaow/2020-02/20/content\\_883651.shtml](http://stdaily.com/rgzn/yiliaow/2020-02/20/content_883651.shtml); Tackling the epidemic: WeDoctor leads digital healthcare upgrade, China.com, April 15, 2020, [https://tech.china.com/article/20200415/042020\\_498997.html](https://tech.china.com/article/20200415/042020_498997.html).

<sup>12</sup> Analysys Qianfan, 2020 March Mobile App Top 1000, Analysys Qianfan, retrieved April 23, 2020, <https://qianfan.analysys.cn/refine/view/rankApp/rankApp.html>; Analysys Qianfan, 2019 December Mobile App Top 1000, Analysys Qianfan’s official post on Zhihu, January 16, 2020, <https://zhuanlan.zhihu.com/p/102983491>.

<sup>13</sup> LING Jiwei, *Sector pulse under the epidemic: China’s 5G commercialization pace is not slowing*, Xinhua, March 3, 2020, [http://www.xinhuanet.com/tech/2020-03/03/c\\_1125656066.htm](http://www.xinhuanet.com/tech/2020-03/03/c_1125656066.htm).



# Fast forward trend 2: Declining global exposure

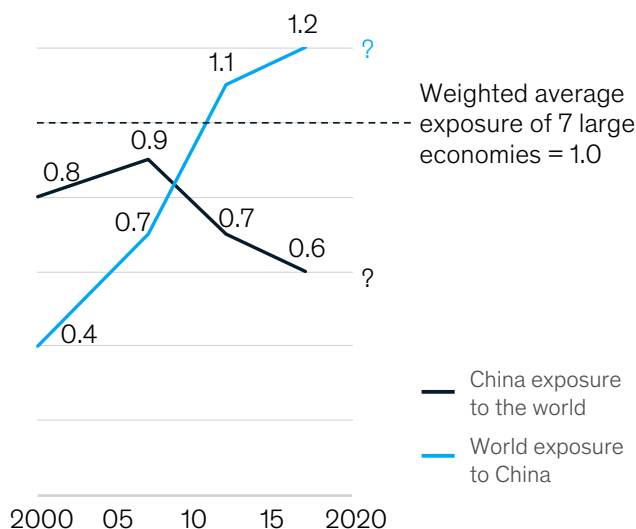
Over the last decade, the engine of the Chinese economy has become more domestically driven by the rapid expansion of its consumer market, deep localization of supply chains, and strong emphasis on local innovation. As a result, China's relative exposure to the rest of the world in terms of people, capital, and technology has declined. Meanwhile, the rest of the world's exposure to China, which has increased at a steady pace over the past decade, in part as a result of the globalization of supply chains, as well as the expansion of the Chinese middle class, is now in question. The forces that were already driving a restructuring of the relationship between China and the global economy may with COVID-19 be accelerating this trend on a global scale. (Exhibit 3)

Exhibit 3

## Declining global exposure

### China has been reducing its relative exposure to the world

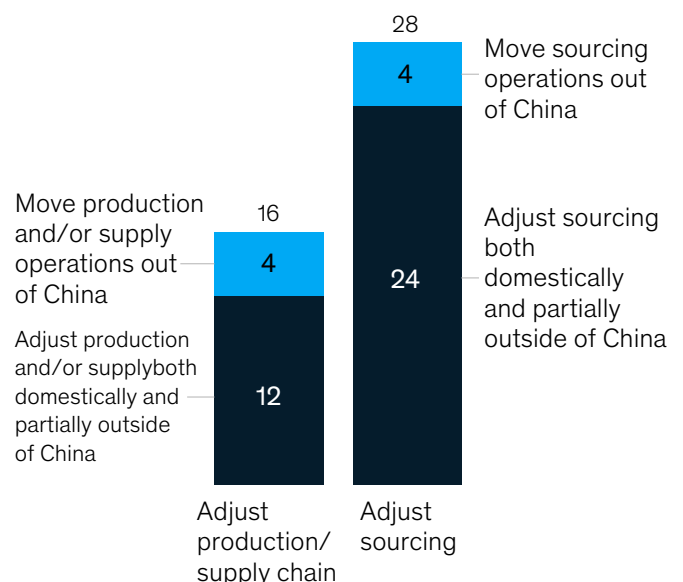
**MGI China-World Exposure Index**  
(trade, technology, and capital)



Source: McKinsey Global Institute; American Chamber of Commerce survey

### Diversification strategy is likely to remain important post-COVID-19

**AmCham China survey respondents, April 2020, %**



According to the McKinsey Global Institute (MGI) China-World Exposure Index, in the decade to 2017, China's exposure to the world in terms of trade, technology, and capital has fallen in relative terms even as the rest of the world's exposure to China has increased. China's indexed exposure to the world decreased from 0.9 in 2007 to 0.6 in 2017, while the world's exposure to China increased from 0.7 to 1.2 in the same period.<sup>14</sup>

The rest of the world's increased exposure is in part a reflection of the rising importance of China as a consumer market, and as a source of capital and goods. However, changes in the international context have made diversification of manufacturing and supply chains an important strategy for businesses around the world.

According to a survey of executives at multinational companies based in China conducted by the American Chamber of Commerce in 2019, nearly 40 percent of companies have considered moving production out of China to other geographies including emerging markets in Southeast Asia. Two-thirds cited the imposition of tariffs stemming from the trade dispute between the US and China as the primary reason for considering whether to relocate manufacturing.<sup>15</sup> A paper published in February by the European Union Chamber of Commerce highlighted how diversification is now at the top of the agenda for many European companies in China.

Meanwhile, China's relative exposure to the rest of the world has declined because the major driver of its economic expansion is no longer trade and investment, but domestic consumption, which accounts for 60 to 70 percent of China's GDP growth.<sup>16</sup> This is evidenced by the decline in China's trade surplus as a percentage of GDP from 8.7 percent in 2007 to 0.8 percent in 2018.<sup>17</sup> Moreover, as China's consumer market and domestic supply chains have matured, more goods and services are being produced and consumed domestically, leading to a decline in the proportion exported. China exported 28 percent of its output of personal computers and electronics in 2017, compared with 55 percent in 2007.<sup>18</sup> In short, China is becoming more localized, or more Chinese, as the rest of the world has absorbed more Chinese influence. However, some parts of China's technology value chain are still dependent on the rest of the world. For example, the value of China's intellectual property (IP) imports are six times higher than its IP exports.<sup>19</sup> As a result, China's government has promoted policies designed to reduce technological reliance on the rest of the world which has sometimes led to the cultivation of a different technology ecosystem, like China's unique suite of mobile apps that have a range of functionality that may not be found in the West.

The COVID-19 outbreak has intensified the debate over whether companies should relocate or localize their supply chains, amid calls for companies in critical sectors to move production capacity out of China. Meanwhile, restrictions on movement imposed to prevent transmission of the virus have slowed global trade flows, sparking a debate on the direction of globalization.

---

<sup>14</sup> A value greater than 1.0 suggests the world is more exposed to China than to the economies of China, Japan, Germany, France, India, United Kingdom, and the United States, on average, whereas a value less than 1.0 suggests the world is less exposed to China than to the seven large economies.

<sup>15</sup> *Second Joint Survey on the Impact of Tariffs*, American Chamber of Commerce, May 22, 2019, <https://www.amchamchina.org/about/press-center/amcham-statement/second-joint-survey-on-the-impact-of-tariffs>.

<sup>16</sup> Zhang Jie, *Consumption remains biggest contributor to economic growth*, China Daily, July 30, 2019, <http://www.chinadaily.com.cn/a/201907/30/WS5d3fe0e0a310d83056401c6e.html>.

<sup>17</sup> Jonathan Woetzel, Jeongmin Seong, Nick Leung, Joe Ngai, James Manyika, Anu Madgavkar, Susan Lund, and Andrey Mironenko, *China and the world: Inside the dynamics of a changing relationship*, McKinsey, July, 2019.

<sup>18</sup> Susan Lund, James Manyika, Jonathan Woetzel, Jacques Bughin, Mekala Krishnan, Jeongmin Seong, and Mac Muir, *Globalization in transition: The future of trade and value chains*, McKinsey, January, 2019.

<sup>19</sup> Jonathan Woetzel, Jeongmin Seong, Nick Leung, Joe Ngai, James Manyika, Anu Madgavkar, Susan Lund, and Andrey Mironenko, *China and the world: Inside the dynamics of a changing relationship*, McKinsey, July, 2019.

### Three observations that indicate COVID-19 has prompted a restructuring of the China-world relationship:

- **Changing sentiment among US companies and consumers.** More US companies are anticipating an acceleration of the need to diversify risk. In a March survey led by the American Chamber of Commerce in China, 44 percent of respondents said it is impossible for the two economies to “decouple”, down from two-thirds in the October 2019 survey, while 20 percent said they expect “decoupling” to accelerate as a result of COVID-19. Risk diversification is likely to remain as an important strategy post-COVID-19. As a result of the outbreak, 16 percent of US companies indicated they will at least partially move production and/or supply chain operations outside of China, and 28 percent are making similar adjustments regarding sourcing.<sup>20</sup> The share of American consumers expressing an unfavorable opinion of China has also increased, according to a survey conducted in March by the Pew Research Center.<sup>21</sup>
- **Increased incentives to relocate and localize.** Several government leaders are calling for a reshoring of supply chains as a result of COVID-19. For example, Japan has earmarked \$2.2 billion to help its manufacturers shift production out of China.<sup>22</sup> US lawmakers have also raised concerns over the national security implications of sourcing medical supplies in China<sup>23</sup>, while Australian politicians have advocated for reduced dependence on China and a diversification of supply chains.<sup>24</sup> On the other hand, a number of policies and initiatives recently announced by the Chinese government indicate the importance of encouraging foreign enterprises to continue their investments and business operations in the country. For example, on April 1, the Ministry of Commerce (MOFCOM) released the ‘Circular on Further Expanding Reform and Opening up to Stabilise Foreign Investment’, which includes 24 measures to promote foreign investment flows into China.<sup>25</sup>
- **Increasing restrictions on mobility and trade.** The World Trade Organization (WTO) has forecast global trade may decline by 13 to 32 percent in 2020 as a result of virus containment measures, higher than the 12.5 percent contraction experienced at the height of the financial crisis in 2009.<sup>26</sup> Foreign direct investment (FDI) is also likely to slump, with the United Nations Conference on Trade and Development forecasting global FDI to shrink 5 to 15 percent in 2020-21.<sup>27</sup> Based on WTO data, trade restrictions have also increased, with 38 countries rolling out 56 restrictive trade policies since the COVID-19 outbreak.<sup>28</sup> People flows are also severely constrained, with 90 percent of the world’s population living in countries with entry restrictions on non-citizens and non-residents.<sup>29</sup> More than 90 World Health Organization (WHO) members have imposed restrictions on travel to China as of end-March this year, compared with 29 at the end of January.<sup>30</sup> The mobility restrictions also prevent companies from undertaking mergers and acquisitions as due diligence processes and negotiations will likely be postponed as a result of travel restrictions.

<sup>20</sup> *Supply Chain Strategies Under the Impact of COVID-19 of Large American Companies Operating in China*, PWC and AmCham China, April, 2020, <https://www.amchamchina.org/uploads/media/default/0001/12/6c49fa07fc17aad5eae5d40b592b0fbb185ea1f.pdf>.

<sup>21</sup> <https://www.pewresearch.org/global/2020/04/21/u-s-views-of-china-increasingly-negative-amid-coronavirus-outbreak/>

<sup>22</sup> Bloomberg, *Japan to pay firms to leave China, relocate production elsewhere as part of coronavirus stimulus*, South China Morning Post, April 9, 2020, <https://www.scmp.com/news/asia/east-asia/article/3079126/japan-pay-firms-leave-china-relocate-production-elsewhere-part>.

<sup>23</sup> *US lawmakers push to reclaim medical supply chains from China*, Financial Times, April 2, 2020, <https://www.ft.com/content/d71c01db-5333-470b-abcd-0df126864447>.

<sup>24</sup> *Coronavirus shortages prompt Australia to bring manufacturing home*, Financial Times, April 15, 2020, <https://www.ft.com/content/04ac783d-8ced-4e66-9437-78b607cbd8d4>.

<sup>25</sup> Ministry of Commerce, *The Ministry of Commerce Holds Online Press Conference on Responding to the Epidemic and Stabilizing Foreign Investment*, April 4, 2020, <http://english.mofcom.gov.cn/article/newsrelease/press/202004/20200402953246.shtml>.

<sup>26</sup> *Trade set to plunge as COVID-19 pandemic upends global economy*, World Trade Organization, April 8, 2020, [https://www.wto.org/english/news\\_e/pres20\\_e/pr855\\_e.htm](https://www.wto.org/english/news_e/pres20_e/pr855_e.htm).

<sup>27</sup> *Coronavirus could shrink global FDI by 5% to 15%*, United Nations Conference on Trade and Development, March 8, 2020, <https://unctad.org/en/pages/newsdetails.aspx?OriginalVersionID=2299>.

<sup>28</sup> Data from *COVID-19: Trade and Trade-related Measures*, World Trade Organization, retrieved April 23, 2020, [https://www.wto.org/english/tratop\\_e/covid19\\_e/trade\\_related\\_goods\\_measure\\_e.htm](https://www.wto.org/english/tratop_e/covid19_e/trade_related_goods_measure_e.htm).

<sup>29</sup> Phillip Connor, *More than nine-in-ten people worldwide live in countries with travel restrictions amid COVID-19*, Pew Research Center, April 1, 2020, <https://www.pewresearch.org/fact-tank/2020/04/01/more-than-nine-in-ten-people-worldwide-live-in-countries-with-travel-restrictions-amid-covid-19/>.

<sup>30</sup> Samantha Kiernan and Madeleine DeVita, *Travel Restrictions on China due to COVID-19*, Think Global Health, April 6, 2020, <https://www.thinkglobalhealth.org/article/travel-restrictions-china-due-covid-19>.

Despite these trends, the full picture is more nuanced. While some companies might benefit from diversifying risks in their supply chains, this does not mean that companies and investors will rush to leave China overnight. China has contributed about 25 percent of global GDP growth over the past two decades, and the latest International Monetary Fund forecast suggests that even as 90 percent of the world experiences negative GDP growth in 2020, China's economy may still expand by 1.2 percent.<sup>31</sup> As such, China is likely to remain an important growth engine for the world, and the extensive supply chains that have evolved to serve domestic demand will continue to be needed. Moreover, few countries possess the mature and highly scaled production ecosystems that exist in China. At the same time, China will continue to require global technology inputs in order to maintain productivity growth. The decisions taken by China and the rest of the world over the next few months and years will determine the trajectory of the relationship.

---

<sup>31</sup> Gita Gopinath, *The Great Lockdown: Worst Economic Downturn Since the Great Depression*, International Monetary Fund, April 14, 2020, <https://blogs.imf.org/2020/04/14/the-great-lockdown-worst-economic-downturn-since-the-great-depression/>.

# Fast forward trend 3: Rising competitive intensity

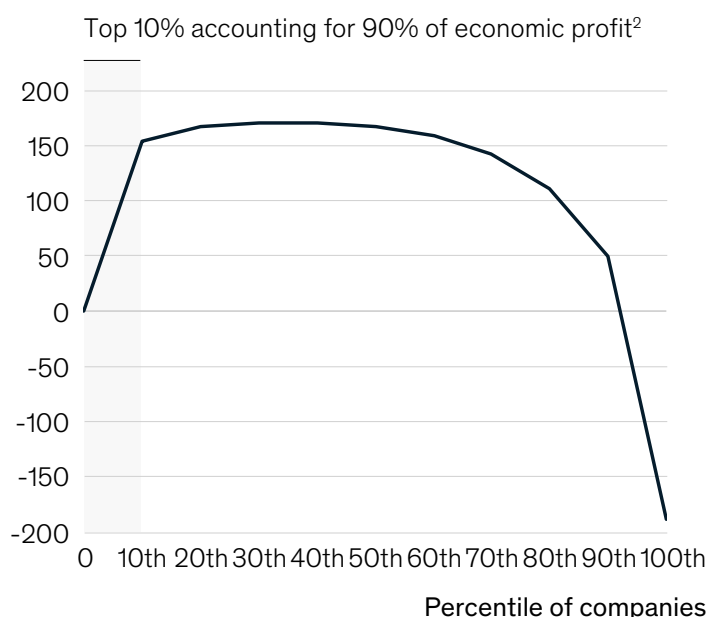
China's leading companies have secured an outsize share of economic profit and return on investment, but cut-throat competition means their dominance is often short-lived. COVID-19 will raise competitive intensity, creating even bigger rewards, and risks, for market-leading companies. (Exhibit 4)

Exhibit 4

## Rising competitive intensity

**In China, top performing firms tend to capture a large share of economic profit**

**Economic profits generated by each decile company group in China, Cumulative basis, 2015-17 \$ Bn<sup>1</sup>**



**Leadership is highly contested in China**

**Likelihood of staying at the top quintile over a decade<sup>1</sup>, %**



<sup>1</sup> Analysis of global top 5,000 companies based on revenue size

<sup>2</sup> Economic profit measures a company's profit after subtracting the cost of capital

In China, the top decile of companies capture about 90 percent of total profit in the economy, while the ratio stands at about 70 percent for the rest of the world according to our analysis of the world's top 5,000 companies. This leading cohort outperforms the rest of the market by a large margin, as their return on invested capital is at 14.6 percent, more than twice the average of 6.8 percent. On the other hand, China has a long tail of underperformers—starting from the 40th percentile onward, the value of economic profit generated by Chinese companies starts to decline. Strong performers in the top decile tend to have robust digital capabilities, as well as agility, and high labor productivity. However, top performers in China cannot be complacent as leadership is highly contested. Only 36 percent of the firms in the top quintile in China were able to protect their position over a period of 10 years, compared with 53 percent in North America.

The “superstar effect” appears to be growing even more pronounced as a result of COVID-19. Under epidemic conditions, when the economy was in retreat, agile and digitally savvy players were able to identify business opportunities to gain share. Chinese internet companies are a case in point. Meanwhile, the epidemic has triggered a flight to quality among consumers keen to ensure they obtain safe and healthy products, empowering companies that offer such benefits.

On the other hand, some endured strong headwinds. Constraints on resources, a lack of agility, or their inability to go digital made them slow to react, resulting in a decline in business, and cash flow issues. For many, the consequence has been reductions in headcount or working hours, coupled with salary cuts. COVID-19 has moreover, highlighted inequality among employees; those in some sectors and with less agility are vulnerable while others are not.

**The rising competitive intensity as a result of COVID-19 is evident across three key areas:**

- **Agile companies increasing customer relationships and sales.** Package delivery provider SF Express leveraged its own fleet during the outbreak, which minimized operational disruptions even as competitors, reliant on franchise models with more outsourced labor, were harder hit by supply disruptions. As a result, SF Express reported sales volume doubled during the peak of COVID-19 in China.<sup>32</sup> Foxconn, one of the world's largest contract manufacturers of consumer electronics, reacted fast when most factories in China were forced to shut down. By switching some of their product lines to produce masks, they protected their workers' health and livelihoods and lowered the risk of production interruptions due to the virus.<sup>33</sup> In part due to these measures, Foxconn was able to resume 100 percent of their production capacity in its Chengdu factory in March.<sup>34</sup>
- **Tech savvy companies continuing to expand.** The heightened popularity of social media during the lockdown spurred development of companies such as ByteDance, parent company of video-streaming platform TikTok, which announced it was hiring 10,000 new employees around the world.<sup>35</sup> With more than 100 million downloads, TikTok was the world's most-downloaded app in January 2020, just as COVID-19 intensified in China.<sup>36</sup> As a supermarket brand with strong digital exposure, Alibaba's Freshippo was able to overcome supply constraints and meet soaring online orders for fruit.<sup>37</sup> The company even hired thousands of extra staff furloughed by shops and restaurants, allowing them to

<sup>32</sup> Western Securities Co, *Courier industry in February 2020*, Tencent Security, March 20, 2020, <http://gu.qq.com/resources/shy/news/detail-v2/index.html#/id=nesSN202003200901007921a0a9&s=b>.

<sup>33</sup> Rob Davies, *Foxconn makes masks for its iPhone workers amid coronavirus crisis*, The Guardians, February 7, 2020, <https://www.theguardian.com/technology/2020/feb/07/foxconn-makes-masks-for-its-iphone-workers-amid-coronavirus-crisis-apple>.

<sup>34</sup> *Foxconn Shenzhen shipped 4 million masks*. Foxconn Chengdu fully resumed production, Apple Daily, March 3, 2020 <https://hk.appledaily.com/china/20200303/QZSSAFMXPDXOM4MJFTYUW5DMA/>.

<sup>35</sup> Wei Sheng, *Bytedance is hiring 10,000 workers as global tech firms slash jobs*, Technode, April 15, 2020, <https://technode.com/2020/04/15/bytedance-is-hiring-10000-workers-as-global-tech-firms-slash-jobs/>.

<sup>36</sup> *TikTok tops the list of most downloaded apps in January 2020*, Hindustan Times, March 20, 2020, <https://www.hindustantimes.com/tech/tiktok-tops-the-list-of-most-downloaded-apps-in-january-2020/story-dm23tPCrC2eA5cN9KSzzXN.html>.

<sup>37</sup> Josh Horwitz, *How Alibaba's Freshippo adapted to keep delivering in virus-hit China*, Reuters, March 24, 2020, <https://www.reuters.com/article/us-health-coronavirus-alibaba-freshippo/how-alibabas-freshippo-adapted-to-keep-delivering-in-virus-hit-china-idUSKBN21A0W0>.

outperform their traditional supermarket peers. Domestic cosmetic brand, Perfect Diary, turned makeup artists in 50 offline stores into online 'KOLs' through WeChat and livestreaming apps during COVID-19, resulting in more than 140,000 livestreaming views, and ranking top among Taobao-listed cosmetic products.<sup>38</sup>

- **Cashflow troubles for weaker companies.** Some sectors and companies struggled to sustain businesses during the epidemic. According to a survey of small- and medium-sized companies (SMEs) by Peking University in February, around 20 percent of respondents said they would not be able to endure beyond a month on a cashflow basis, while 60 percent would not last beyond a quarter, should the pandemic have continued.<sup>39</sup> While some of these SMEs may have already bounced back given recent signs of recovery, based on China Banking Regulatory Commission information, non-performing loans increased by 0.06% at the end of February versus the beginning of the year.<sup>40</sup>

This divergent performance across sectors and companies has a knock-on effect on employees. Staff in companies that are not sufficiently agile or digital-savvy to change the way they work in response to market shocks are vulnerable to unemployment. This is especially true in China, though significant financial resources are directed towards helping companies reduce the risk of job losses, and the government is supporting vulnerable companies via the banking system. For example, the bank ICBC extended various forms of financial support to SMEs facing business difficulties during the epidemic.<sup>41</sup>

---

<sup>38</sup> *Consumption report during COVID-19: Cosmetic—how companies leverage livestreaming*, Beijing Business Today, April 19, 2020, <https://baijiahao.baidu.com/s?id=1664367865765114123&wfr=spider&for=pc>.

<sup>39</sup> Rouchen Dai, Junpeng Hu and Xiaobo Zhang, *The Impact of Coronavirus on China's SMEs: Findings from the Enterprise Survey for Innovation and Entrepreneurship in China*, Center for Global Development, February 28, 2020, <https://www.cgdev.org/publication/impact-coronavirus-chinas-smes-findings-from-esiec>.

<sup>40</sup> *China Non Performing Loans Ratio*, CEIC <https://www.ceicdata.com/en/indicator/china/non-performing-loans-ratio>.

<sup>41</sup> *ICBC Takes Measures to Boost Work Resumption by SMEs*, ICBC, February 28, 2020, <https://www.icbc.com.cn/icbc/en/newsupdates/icbc%20news/ICBCTakesMeasurestoBoostWorkResumptionbySMEs>.

# Fast forward trend 4: Consumers come of age

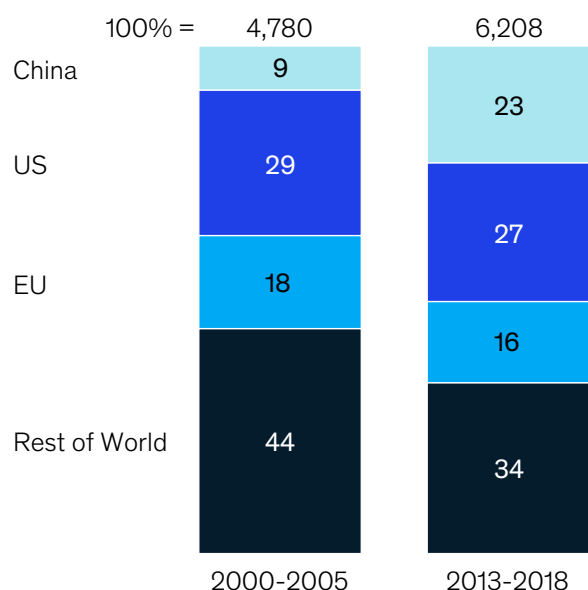
Chinese consumers have long been a major driver of global consumption, especially the affluent younger generation who have never experienced a domestic economic downturn. COVID-19 has changed that, forcing consumers to think harder about spending, borrowing, and trade-offs in purchasing behaviour. (Exhibit 5)

Exhibit 5

## Consumers come of age

### China's consumption power has grown significantly

Global household consumption growth by region, % billion 2010 US\$

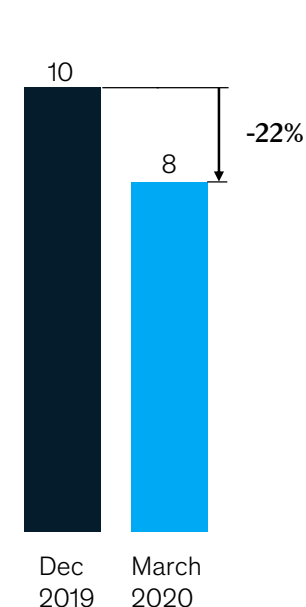


### Consumers have become more prudent with personal finances since COVID-19

China household deposit balance, RMB Tn



China consumption loan/consumer credit balance, RMB Tn



Source: National Bureau of Statistics in China; World Bank; People's Bank of China; McKinsey analysis



Over the last two decades, China has successfully increased the role consumption plays in the economy to the point that it is now the driving force behind economic growth. Indeed, China's share of global consumption growth rose from 9 percent in the 2000-2005 period to 23 percent in 2013-2018 (Exhibit 5). China's consumption power is also pronounced in the luxury segment, where Chinese consumers accounted for 32 percent of global consumption in 2018, and are expected to account for 40 percent by 2025.<sup>42</sup> As China's consumer economy has risen, buying behaviour has become more sophisticated. For example, based on our most recent survey of Chinese consumers, 72 percent of respondents indicate they want to pursue a healthy lifestyle, while 60 percent of those in large cities check ingredient labels post-epidemic. Moreover, 24 percent of Chinese consumers intended to trade up their purchases in 2018, higher than the 10-15 percent in developed countries.

Until COVID-19, growth in consumer spending had continued relatively unchecked on a national scale. However, the epidemic has severely disrupted the economy, and triggered profound changes in consumer behavior, including those in their 20s and 30s. This cohort has been the engine of Chinese consumption, with 40-50 percent indicating in a McKinsey consumer survey that they never worry about income because their parents can easily cover expenses. Moreover, 40 percent of respondents aged 20 to 30 indicated that they had received help from their parents when buying an apartment. As a result of COVID-19, many of these consumers experienced a significant blow to their personal finances for the first time, forcing them to make tough trade-offs in terms of purchasing decisions, and driving an almost instant maturation of their spending attitudes and patterns.

#### **The accelerating maturity of Chinese consumers can be seen in four key areas:**

- **Young consumers' spending.** Before the epidemic, China's young consumers (defined here as those born in the 90s or after) were more willing to spend than to save. They accounted for one-third of China's consumer credit<sup>43</sup>, and almost half of Alibaba's "Ant Check Later" consumer financing platform user base<sup>44</sup>, while fewer than 50 percent had consciously put aside retirement savings.<sup>45</sup> However, the epidemic has unlocked their long-term planning behavior, as they come to terms with the prospect of recession for the first time in their working lives. The result has been significant changes in their saving, borrowing, investing, and consumption behavior according to various surveys. For example: In a survey heavily weighted toward young consumers, 42 percent of respondents stated their intention to save more than before COVID-19.<sup>46</sup> Another survey highlights the value of consumer loans primarily extended to young consumers declined by 22 percent between end-2019 and March.<sup>47</sup> In terms of investing, more than 40 percent of new wealth management and stock trading customers are young,<sup>48</sup> with about 80 percent indicating an intention to purchase more insurance products after COVID-19.<sup>49</sup> At the same time, they are becoming more cautious. More than 60 percent of young consumers intend to plan their consumption and reduce impulse spending.<sup>50</sup> This is especially true for those born between 1995 and

<sup>42</sup> McKinsey China Luxury 2019 Report, <https://www.mckinsey.com/~media/mckinsey/featured%20insights/china/how%20young%20chinese%20consumers%20are%20reshaping%20global%20luxury/mckinsey-china-luxury-report-2019-how-young-chinese-consumers-are-reshaping-global-luxury.ashx>.

<sup>43</sup> 2019 China "born-in-the-90s" consumer borrowing overview and behavioral analysis, iiMedia, December 18, 2019, <https://www.iimedia.cn/c1020/67253.html>.

<sup>44</sup> 2019 China "born-in-the-90s" consumer borrowing overview and behavioral analysis, iiMedia, December 18, 2019, <https://www.iimedia.cn/c1020/67253.html>.

<sup>45</sup> Fidelity and Ant Fortune, *China Retirement Readiness Survey 2019*, September 2019, <http://www.fidelity.com.cn/zh-cn/market-insights/china-retirement-readiness-survey-2019-full-report/10/>.

<sup>46</sup> China Youth Daily, *Survey shows 66.5% respondents developed good habits during the epidemic*, China News, April 23, 2020, <http://www.chinanews.com/sh/2020/04-23/9165443.shtml>.

<sup>47</sup> *Summary of Sources And Uses of Credit Funds of Financial Institutions*, statistics session of People's Bank of China website, March 2020.

<sup>48</sup> QuestMobile, *2020 Epidemic's Impact on Lifestyle Report*, QuestMobile website, March 25, 2020, <https://www.questmobile.com.cn/research/report-new/87>.

<sup>49</sup> Rong360.com Inc, *55.99% of respondents reported impact on income during epidemic*, China.com, April 1, 2020, [https://m.tech.china.com/tech/article/20200401/042020\\_490646.html](https://m.tech.china.com/tech/article/20200401/042020_490646.html).

<sup>50</sup> 58 Finance, *58 Finance Finance and Consumer Borrowing Attitude Survey Report*, iResearch, April 23, 2020, <http://news.iresearch.cn/yx/2020/04/321476.shtml>.

1999, three-quarters of whom said they intended to do so.

- **Even more prudent personal financial management.** China's household savings rate is about 36 percent, among the highest in the world.<sup>51</sup> Chinese consumers are now putting even more thought into how they manage their personal finances. In the first quarter of 2020, deposit balances increased by 70 billion RMB each day, on average.<sup>52</sup> As a result, the country's household deposit balance increased by 8 percent compared with end-2019, reaching 87.8 trillion RMB at the end of March 2020.<sup>53</sup> A survey on post-coronavirus consumer behavior showed that around 41 percent of respondents plan to increase their sources of income through wealth management, investments, and mutual funds. In addition, approximately 27 percent indicated they will buy health insurance for themselves and their family.<sup>54</sup>
- **Health conscious purchase decisions.** The epidemic has increased awareness of product safety and quality, and this trend is expected to continue. More than 70 percent of respondents in our COVID-19 consumer survey said they will continue to spend more time and money purchasing safe and eco-friendly products, despite pressure on disposable income as a result of the economic slowdown. As for buying behavior, consumers have over-indexed on healthy products. Around 75 percent of consumers demonstrated strong preference to exercise more and eat healthily post crisis.
- **Purchasing trade-offs amid a flight to quality:** Chinese consumers have become more cautious as a result of the epidemic, tending to spend less but buying better quality products. According to a post-epidemic survey, close to half of Chinese respondents intend to live more frugally and seek value-for-money when selecting products, while 36 percent are more willing to spend more for better quality products.<sup>55</sup> Consumers are potentially seeking quality in their necessities, while focusing on value-for-money in other categories. A survey reveals that post-COVID-19, consumers increased their net purchase intention by the largest degree toward essential, health-oriented products, such as sanitary and health products, fresh food, and life insurance, while expressing negative net purchase intention towards non-necessities such as hair and beauty products, and large home appliances.<sup>56</sup> Consumer complaints relating to quality have also increased. In Guangdong for example, consumer complaints rose 40 percent on year in the first quarter to 98,000, suggesting tolerance for low-quality products and poor service is on the decline.<sup>57</sup>

---

<sup>51</sup> Household savings section, OECD National Accounts Statistics, <https://data.oecd.org/hha/household-savings.htm>.

<sup>52</sup> Daily inflow of 70 billion to banks, Phoenix New Media, April 15, 2020, <https://finance.ifeng.com/c/7vhACPWszOC>.

<sup>53</sup> China reports increase in household deposits, Xinhua, April 18, 2020 [http://www.xinhuanet.com/english/2020-04/18/c\\_138988659.htm](http://www.xinhuanet.com/english/2020-04/18/c_138988659.htm).

<sup>54</sup> Consumer behavior change during COVID-2019, Sina, March 10, 2020, <http://tech.sina.com.cn/roll/2020-03-10/doc-iimxxstf7737378.shtml>.

<sup>55</sup> 58 Finance, 58 Finance Finance and Consumer Borrowing Attitude Survey Report, iResearch, April 23, 2020, <http://news.iresearch.cn/yx/2020/04/321476.shtml>.

<sup>56</sup> Netease Dingwei and CTR, 2020 COVID-19 Consumer Behavior Impact and Trends Report, retrieved April 23, 2020, [http://pdf.dfcfw.com/pdf/H3\\_AP202003111376137659\\_1.pdf](http://pdf.dfcfw.com/pdf/H3_AP202003111376137659_1.pdf).

<sup>57</sup> China Consumer News, Guangdong COVID-19 related consumer complaints increased, Guangdong Consumer Council, April 16, 2020, <http://www.gdcc315.cn/show-9-52867-1.html>.

# Fast forward trend 5: Private and social sectors step up

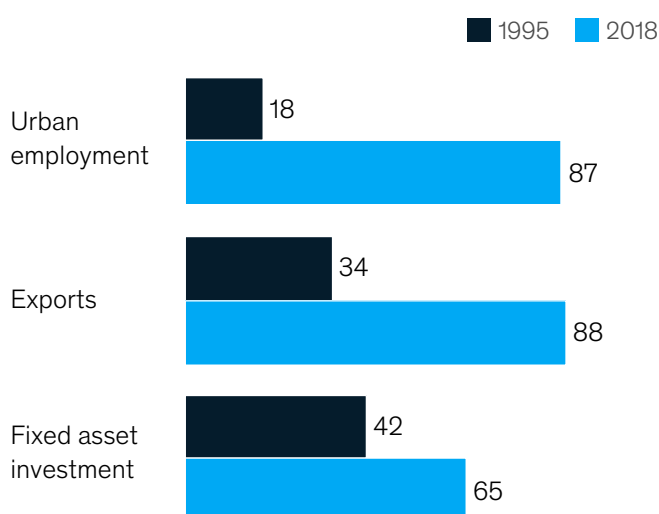
During the 2003 SARS outbreak, the government and state-owned enterprises (SOEs) were the primary actors in the economy, and therefore led the country's response to the crisis. China's response to COVID-19, however, has been orchestrated by a blend of state and private institutions. While SOEs again played a critical role, the private sector, in particular leading technology companies, made notable contributions to relief and recovery efforts. Policy debates also indicate COVID-19 might be accelerating long-awaited structural reforms to land, financial, and labor markets. (Exhibit 6)

Exhibit 6

## Private and social sectors step up

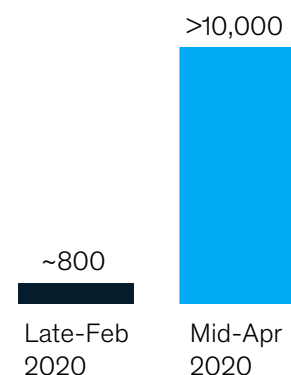
### Private sector has become China's main economic driver<sup>1</sup>

#### Private sector's contribution to total economy<sup>1</sup>, %

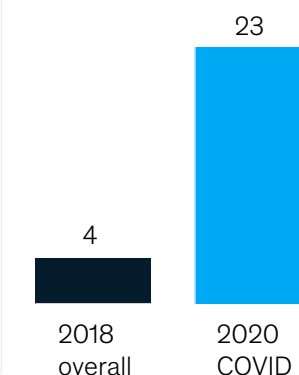


### Their influence on the socioeconomic landscape remains important

#### Personal QR code IDs, # of users of "Suishenma" health codes in Shanghai, powered by Alipay (in thousands)



#### Information technology sector's donations as share of total corporate donations<sup>2</sup>, % of total



<sup>1</sup> Private enterprises defined as private enterprises and foreign enterprises

<sup>2</sup> 2018 data is from "Giving China 2018" report, where 2020 COVID data is based on announced donation information (up to 24 Feb 2020) from collated online literature. Corporate donations include donations from state-owned enterprises, privately-owned enterprises, and foreign enterprises

Source: CEIC; Giving China 2018; literature search; McKinsey analysis

In 2003, when the State-owned Assets Supervision and Administration Commission (SASAC) was established to orchestrate state-owned enterprise reform, SOEs were still the major driver of China's economy, accounting for about 55 percent of China's assets, and 45 percent of profits.<sup>58</sup> However, private enterprises have now become the major driver of China's economic growth, and the fulcrum of urban employment generation, export value, and fixed-asset investment. Today, the private sector contributes close to two-thirds of China's economic growth, and 90 percent of new jobs.<sup>59</sup>

This context is important in understanding key differences in the responses to SARS in 2003, and COVID-19 in 2020. In 2003, the government led the majority of epidemic prevention and recovery efforts, whereas joint efforts between government and large private companies have come to the fore during COVID-19. The shift illustrates the growth of the private sector, its ability to participate in activities of national importance, and the potential opportunities inherent in public-private partnerships with the state. In addition, the role of social institutions has expanded to address gaps in the corporate and state response, a development which is beneficial to society overall. The government recently announced a policy direction to accelerate structural reforms that cover labor, land, prices, capital, and technology.

**The acceleration of changes to the role of the private sector is evident in three key areas:**

- **Private sector actors aiding the national recovery with technology and resources.** Technology companies and financial institutions have assisted virus containment efforts, enabling the widespread adoption of a color-coded health system using QR codes, as well as sophisticated track and trace measures. In Shanghai, Alipay and WeChat supported the Shanghai government's "Suishenma" health QR code launch in mid-February to help citizens self-report and trace infections.<sup>60</sup> Users of the system rose from about 800,000 in late February to more than 10 million in mid-April.<sup>61</sup> Alibaba also launched an online appointments platform for new coronavirus nucleic acid testing services in 38 major cities,<sup>62</sup> on top of their "2020 Spring Thunder Initiative" to help export-focused SMEs expand into new markets through e-commerce channels.<sup>63</sup> Many other companies contributed products, services, money, and technology to support the government and community. For example, Chinese tech firms collectively donated more than \$4.4 billion to combat COVID-19, almost a quarter of corporate donations made since the outbreak, and much higher than the 4 percent of total corporate donations the sector contributed in 2018.<sup>64</sup> Alibaba provided free services and offered financial support to Chinese business, while Ping An launched a smart system to bridge doctors and patients.<sup>65</sup> Taikang Insurance accommodated more than 2,000 coronavirus patients in their own hospital, and donated money and goods worth more than 100 million RMB.<sup>66</sup>
- **Policy announcement to strengthen the role of the market.** On March 30, the State Council published a document listing a series of policy directions aimed at boosting the market economy, covering several agenda items requiring deep structural reforms, including for example: land (more flexibility in land

<sup>58</sup> Zoey Ye Zhang, *China's SOE Reforms: What the Latest Round of Reforms Mean for the Market*, China Briefing, March 29, 2020, <https://www.china-briefing.com/news/chinas-soe-reform-process/>.

<sup>59</sup> Rainer Zitelmann, *State Capitalism? No, The Private Sector Was And Is The Main Driver Of China's Economic Growth*, Forbes, September 30, 2019, <https://www.forbes.com/sites/rainerzitelmann/2019/09/30/state-capitalism-no-the-private-sector-was-and-is-the-main-driver-of-chinas-economic-growth/#760e03f827cb/>.

<sup>60</sup> Shanghai government's "Suishenma" health QR code, Shanghai Observer, March 1, 2020, <https://www.jfdaily.com/news/detail?id=218227>.

<sup>61</sup> Ding Yining, *Health QR code made available to more residents*, SHINE, March 1, 2020, <https://www.shine.cn/biz/economy/2003013178/>.

<sup>62</sup> Alibaba launches Covid-19 test service in China, cnTechPost, April 21, 2020, <https://cnetechpost.com/2020/04/21/alibaba-launches-covid-19-test-service-in-china/>.

<sup>63</sup> Alibaba launches 2020 Spring Thunder Initiative to give Chinese SMEs a leg up during Covid-19, cnTechPost, April 7, 2020, <https://www.thedrum.com/news/2020/04/07/alibaba-launches-2020-spring-thunder-initiative-give-chinese-smes-leg-up-during>.

<sup>64</sup> Report on corporate donations on COVID-19 crisis in China, March 10, 2020, <https://xw.qq.com/cmsid/20200310A0ETR700>; China Charity Alliance, *Giving China 2020*, September 2019, <http://www.charityalliance.org.cn/u/cms/www/201909/23083734i5wb.pdf>.

<sup>65</sup> Ping An Insurance Group Ltd., *Ping An Launches COVID-19 Smart Image-Reading System to Help Control the Epidemic*, PR Newswire, February 28, 2020, <https://www.prnewswire.com/news-releases/ping-an-launches-covid-19-smart-image-reading-system-to-help-control-the-epidemic-301013282.html>.

<sup>66</sup> How Tai Kang made a joint effort with domestic and foreign experts to combat coronavirus, Xinhua, April 19, 2020, [http://www.xinhuanet.com/money/2020-04/19/c\\_1125877007.htm](http://www.xinhuanet.com/money/2020-04/19/c_1125877007.htm).

use); labor (remove/loosen the household registration system); prices (integration between benchmark lending and deposit rates with market rates); capital (opening up of the financial sector) and technology (global collaboration). While these initiatives were already on the agenda of Chinese policy makers, it appears that COVID-19 might be serving as a catalyst to accelerate the pace of reform.<sup>67</sup>

- **Rising influence of social institutions.** Foundations and other charitable organizations have also become more influential, in keeping with a doubling of social institutions in China between 2009 to 2019.<sup>68</sup> The sector played a vital role in consolidating donations of money and supplies during the outbreak. Collectively, these institutions received more than 29 billion RMB from societal donations, and redirected the funds to areas most in need of help.<sup>69</sup> For instance, the Bill & Melinda Gates Foundation committed \$5 million to China to combat the virus.<sup>70</sup> Vanke Foundation donated 100 million RMB to Hubei province, where the virus originated and caused the most damage,<sup>71</sup> and Vanke employees' funds granted 200 million shares worth 5.3 billion RMB to Tsinghua University to build the Vanke School of Public Health.<sup>72</sup> The Ford Foundation has made about 300–500 thousand USD worth of grants to NGOs providing a frontline response.<sup>73</sup> Han Hong Love Charity Organization raised more than 1.4 hundred million RMB by the end of January on a project specifically to provide additional support on purchasing and distributing medical resources to Wuhan and the surrounding cities.<sup>74</sup>

Clearly, the private sector has not only increased its contribution to China's economy, but also its role in society. While the public sector still plays a critical role in terms of resource allocation, and during the crisis received a large amount of centrally allocated funds, even SOEs were encouraged by the government to support the private sector. Meanwhile, a powerful new group of social institutions have contributed significantly toward the response to COVID-19, and are expected to play an elevated role in Chinese society going forward.

As the world turns its attention from containing the COVID-19 outbreak to planning the reopening of society, and the restarting of economies, we hope the five accelerating trends outlined here regarding how the response to COVID-19 has affected China prove helpful references to decision makers in the corporate and public sectors around the world.

## About the authors

**Nick Leung** is chairman of McKinsey's Greater China Practice; **Joe Ngai** is managing partner of McKinsey's Greater China Practice; **Jeongmin Seong** is a partner with the McKinsey Global Institute; **Jonathan Woetzel** is a senior partner and director of the McKinsey Global Institute.

The authors would like to thank the following colleagues for their contributions to the research and writing of this article: Spencer Liu, Rainy Wang, and Glenn Leibowitz.

<sup>67</sup> *State Council*, April 9, 2020, [http://www.gov.cn/zhengce/2020-04/09/content\\_5500622.htm](http://www.gov.cn/zhengce/2020-04/09/content_5500622.htm); China's Top Leaders Pledge Bigger Role for Markets, April 13, 2020, China's Top Leaders Pledge Bigger Role for Markets, <https://www.bloombergquint.com/china/china-s-top-leaders-pledge-bigger-role-for-markets-as-virus-hits>.

<sup>68</sup> *Quarterly statistics session*, Ministry of Civil Affairs of the People's Republic of China.

<sup>69</sup> *National social donation has achieved 29.2 billion*, China Charity Alliance, March 9, 2020, <http://www.charityalliance.org.cn/gov/13362.jhtml>.

<sup>70</sup> *Bill & Melinda Gates Foundation Commits \$10 Million to Global Response to 2019-nCoV*, Bill & Melinda Gates Foundation, January 26, 2020, <https://www.gatesfoundation.org/Media-Center/Press-Releases/2020/01/Gates-Foundation-Commits-10-Million-to-Global-Response-to-2019-nCoV>.

<sup>71</sup> *Vanke Foundation donated 100 million to Wuhan*, Sina, January 25, 2020, <http://finance.sina.com.cn/stock/relnews/cn/2020-01-25/doc-iihnzhha4569082.shtml>.

<sup>72</sup> Evelyn Cheng, *Coronavirus outbreak gives public health in China the push it needs*, CNBC, April 9, 2020, <https://www.cnbc.com/2020/04/10/coronavirus-outbreak-gives-public-health-in-china-the-push-it-needs.html>.

<sup>73</sup> National Committee on US China Relations, *Coronavirus Social Impact: NGOs Operating and Evolving through COVID-19*, <https://www.ncuscr.org/media/podcast/coronavirus-impact-knup>

<sup>74</sup> Holly Snape, *China Alters Civil Society Rules, Allowing More Groups to Respond to Coronavirus*, The China NGO Project, March 5, 2020, <https://www.chinafile.com/ngo/analysis/china-alters-civil-society-rules-allowing-more-groups-respond-coronavirus>